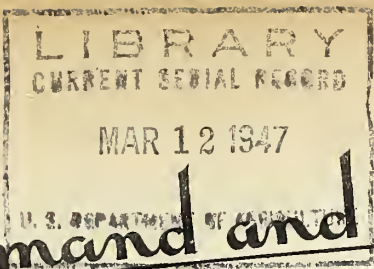


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FOR RELEASE
MAR. 7. A. M.

THE Demand and Price SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

WASHINGTON, D. C.



FEBRUARY 1947

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SUMMARY

The demand for farm products is expected to hold firm through the first half of 1947 but may weaken somewhat in the latter half. Average prices received by farmers are expected to decline only slightly by the middle of 1947 with a more pronounced drop in the second half, particularly toward the end of the year. But since prices received by farmers were at 260 (1909-14 = 100) in January of 1947 they can fall considerably during 1947 and still average as high as the index of 233 in 1946.

Although there is a considerable backlog need of housing, automobiles, and other durable goods, expanding total output and rising prices are not expected to continue through 1947. The real income--purchasing power-- of wage and salary earners has been declining almost continuously since VJ-Day which makes it increasingly difficult for total business activity to continue to expand. Important offsetting factors--a high rate of inventory accumulation, and extremely high level of residential and non-residential construction and an increase in consumer installment buying together with withdrawals from past savings--operated to pull the economy up to record peacetime levels in 1946. Although these offsetting factors will continue to operate through 1947, it is doubtful that they will be as important as they were in 1946.

(For release March, 7 A. M.)

ECONOMIC TRENDS AFFECTING AGRICULTURE

Item	Unit or base period	1945		1946			
		Year	Dec.	Sept.	Oct.	Nov.	Dec.
Industrial Production <u>1/</u>	:1935-39						
Total	= 100	203	163	180	181	183	181
All manufactures	"	214	169	186	188	191	190
Durable goods	"	274	185	212	213	214	210
Nondurable goods	"	166	156	165	168	173	173
Minerals	"	137	133	146	145	136	136
Construction activity <u>1/</u>	:1935-39						
Contracts, total	= 100	118	188	263	253	242	265
Contracts, residential	"	64	137	360	343	299	348
Wholesale prices <u>2/</u>	:1935-39						
All commodities	= 100	131	133	154	166	173	175
All commodities except farm and food	"	123	124	138	143	149	154
Farm products	"	169	173	203	218	223	221
Food	"	134	137	167	200	209	202
Prices received and paid by farmers <u>3/</u>	:1910-14 = 100						
Prices received, all prod. ..	"	202	207	243	273	263	264
Prices paid, int. and taxes ..	"	174	176	200	207	212	213
Parity ratio	"	116	118	122	132	124	124
Consumers' price <u>5/ 6/</u>	:1935-39						
Total	= 100	128	130	146	149	152	153
Food	"	139	141	174	180	188	186
Nonfood	"	123	124	130	131	132	135
Income	:1935-39						
Nonagricultural payments <u>4/</u> ..	= 100	236	230	243	244	247	248
Cash farm <u>3/</u>	"	283	282	249	348	367	366
Income of Industrial Workers <u>3/</u>	"	286	233	287	288	294	301
Factory payrolls <u>5/</u>	"	307	241	302	305	311	319
Weekly earnings of factory workers <u>5/</u>	: Dollars						
All manufacturing	"	44.39	41.21	45.39	45.73	45.78	46.86
Durable goods	"	49.05	44.08	48.36	48.90	48.60	49.51
Nondurable goods	"	38.29	38.52	42.34	42.45	42.86	44.14
Employment							
Total civilian <u>7/</u>	: Millions	51.6	51.2	57.0	57.0	57.0	56.3
Employees in nonagri. est. <u>5/</u>	: Thous.	38,144	37,463	40,134	40,175	40,381	40,795
Farm <u>3/</u>	"	9,843	9,245	11,111	11,486	10,809	9,405
Government finance (Federal) <u>8/</u>	: Mil. dol.						
Receipts, net	"	3,837	4,118	4,478	2,544	2,364	4,107
Expenditures	"	7,470	5,013	2,755	2,965	2,529	3,662

Annual data for the years 1929-45 appear on page 20 of the March 1946 issue of the Demand and Price Situation.

Sources: 1/ Federal Reserve Board; converted to 1935-39 base. 2/ U. S. Dept. of Labor, B.L.S. 3/ U. S. Dept. of Agriculture, BAE. To convert prices received and prices paid, interest and taxes to the 1935-39 base, multiply by .93110 and .78125 respectively. 4/ U. S. Dept. of Commerce. 5/ U. S. Dept. of Labor B.L.S. 6/ Consumers' price index for moderate-income families in large cities. 7/ U. S. Dept. of Commerce, Bureau of Census. 8/ U. S. Dept. of Treasury. Data for 1945 are on average monthly basis.

REAPPRAISAL OF BUSINESS CONDITIONS IN 1947

Industrial activity during the first half of 1947 probably will increase slightly above the record peacetime level of the fourth quarter of 1946. During the second half of 1947, however, industrial production may decline 5 to 10 percent from the anticipated peak levels of the first half. Nevertheless, industrial activity for 1947 as a whole will probably average higher than 1946.

The annual rate of income payments during the first half of 1947 is likely to increase somewhat over the annual rate of \$173 billion attained in the fourth quarter of 1946. If industrial activity declines as much as anticipated, income payments to individuals in the second half of 1947 may be 8-12 percent below those of the first half.

Important economic forces operating through 1946 and into the first quarter of 1947 seem to indicate a downturn in business activity in the latter part of 1947. Probably the most important force is the steady decline in real income--purchasing power--of salary and wage earners. In July 1945, real wages and salaries were about 205 percent of the 1935-39 average, but were only 168 percent of this average in December 1946. The proportional share of wages and salaries dropped from 70 to 59 percent of total income payments. Since real income from salaries and wages is the largest element in total consumer demand, its decline indicates that total effective demand can be maintained only with increasing difficulty. Withdrawals from past savings by many individuals, the reduction in current rate of savings, the expansion in consumer credit, and business expenditures of various types, were important factors in more than offsetting the decline in real income of salary and wage earners in 1946. These factors cannot be expected to more than offset this decline in purchasing power much beyond the first half of 1947.

Business concerns may not add to inventories as rapidly in 1947 as they did in 1946. Inventories rose from 27 to 33 billion dollars in 1946 and were not out of line with total sales. But inventories could become excessive if sales decline appreciably in 1947. Although further increases are anticipated in various lines, the record rate of total inventory accumulation in 1946 is not likely to be maintained in 1947. This, also, may contribute to a downturn in business activity.

A somewhat similar situation may develop with respect to expenditures on new plant and equipment. These expenditures reached an annual rate of approximately \$14 billion in the last quarter of 1946, half again as large as those in the last quarter of 1945. This rapid rise continued the upward movement which began in 1943. Past records indicate, however, that expenditures for new plant and equipment may be expected to level off or decline sometime in 1947.

Expenditures for plant and equipment during the first quarter of 1947 are expected to total \$3.6 billion, about the same as in the last quarter of 1946. Unless this rate is exceeded, these expenditures will not suffice to offset the decline in the real income of wage and salary earners and to maintain overall activity in 1947 at the high levels achieved in 1946.

Weaknesses in other economic forces may develop. Purchasing power arising from installment credits and withdrawals of past savings stimulated consumer demand throughout 1946. The volume of installment credit increased rapidly but was still some \$5 billion below its historical relationship to consumer expenditures. This indicates that the shrinkage in real earnings of large groups of consumers could be offset by further extensions of credit in 1947, thus helping to maintain total effective demand at continued high levels. But the force of this factor must eventually weaken since repayments on loans must be made out of later income.

A survey of liquid asset holdings made in 1946 indicated that the lower 70 percent of those owning liquid assets in 1945 held only 13 percent of all such assets. Information regarding the extent of withdrawals from these past savings during 1946 is scanty. But there is some evidence in the form of Treasury Department figures showing that about \$6 billion in savings bonds were redeemed in 1946. This, of course, throws no light on the extent of withdrawals from other types of savings although it was probably considerable. Whether or not withdrawals from savings will be as substantial in 1947 as in 1946 is questionable, although it seems likely that the savings of the lower income groups may have been considerably depleted. Furthermore, the current rate of savings has shrunk drastically from wartime peaks and is rapidly approaching the prewar relationship to total income payments.

Another important force which operated to maintain high levels of business activity in 1946 was the high level of exports. The total value of goods moving from the United States to foreign countries in 1947 may be fully as great as in 1946, provided imports increase as anticipated and proposed credits and relief shipments to foreign countries materialize.

The most favorable element operating to maintain activity in 1947 is the huge backlog of needs for housing, automobiles and some other types of consumers durable goods. These needs accumulated during the war when almost half of our productive capacity was diverted to the production of war goods. Individual savings also accumulated during these years to a larger degree than ever before in our history. During 1946 the more urgent of these needs were satisfied by the record output of goods which industry turned out. But the needs of many people hardly have been touched since the end of the war.

For example, the National Housing Agency has estimated that more than 12 million nonfarm dwellings need to be constructed in 1946-55 to meet the minimum standards of health and decency. Approximately 1,300,000 nonfarm units (permanent and temporary) were started during 1946. Therefore, construction could proceed at the present rate for almost 10 years before minimum needs would be satisfied. The backlog of needs for new automobiles has been estimated at between 10 to 12 million units. In addition, the normal replacement demand for automobiles also must be met. In 1946 less than 2.5 million units were produced. These needs are limited by the depletion of savings, reduction in real income, and the using up of installment credit so that they may not be realized in effective demand.

The foregoing analysis of the conflicting forces in 1947 would seem to point toward a downturn in overall activity in the latter part of the year. Owing to the difficulty of evaluating exactly the complex forces operating in the economy, however, the time of the downturn indicated here may well be moved up or postponed a few months. Timely downward adjustments in prices could improve the outlook by causing the real income of wage and salary earners to rise to a level consistent with a continued high level of business activity. However, such a flexibility in the price structure has rarely been observed.*

COMMODITY PRICES

Prices, in general, are expected to continue at or near present levels during the first half of 1947. With the marketing of 1947 crops and the anticipated decline in general business activity in the last half of 1947, wholesale prices of foods by the end of the year may be 15 to 20 percent below December 1946. These declines would be partially offset by the expected holding or further rise in prices of some building materials, metal and metal products and possibly house furnishings and other miscellaneous durable goods.

Average prices received by farmers probably have passed their postwar peak and may be expected to decline moderately even before 1947 crops begin to influence commodity prices. Prices of farm products in general are high and some downward adjustment may be expected even if there is no significant recession in general business activity. However, if the recession develops in the last half of 1947 when farm marketings are heavy, farm prices could decline 20 to 25 percent below January. Even with a substantial downward adjustment in prices received by farmers in the latter half of 1947, prices received for the year probably will average as high as in 1946.

Prices paid by farmers are not likely to decline much during the first half of 1947. However, some food prices have declined from the wartime peak and some weakening may occur in clothing and feed prices. However, these declines are expected to be partially offset by further increases in prices of some building materials, machinery and equipment, and other operating supplies in the first half of 1947. With substantial declines in prices of foods and farm products in the latter part of 1947, as well as a leveling off or weakening in prices of most other commodities, the index of prices paid, interest and taxes, may decline to levels 8 to 10 percent below January. For the year as a whole, however, the index is expected to average 5 to 7 percent above 1946.

The parity ratio (the ratio of prices received to prices paid including interest and taxes) probably will continue to decline, but may not go below 100 during the year.

AGRICULTURAL EXPORTS

United States exports of agricultural products in 1946, the first peace-time year, were valued at \$3.1 billion, about four and a quarter times the prewar average and more than double the war period average. In physical quantity, as contrasted with dollar value, the 1946 exports were about double prewar.

* See page 16 for "A Comparison of Business Activity after Two Wars."

These export figures do not include shipments of agricultural products from the United States by the armed forces for distribution to foreign civilians in occupied areas. These shipments of foods only in 1946 are roughly estimated at about 375 million dollars.

Estimates of agricultural exports by commodities indicate that the total physical volume of agricultural exports in the calendar year 1947 will be about 20 percent less than in 1946. The volume of exports of most of the major export farm products, except corn and fruits, is expected to be smaller this year. Such a reduction, however, would still leave the 1947 volume of agricultural exports roughly 80 percent above 1935-39 and far above the war period. This suggests that the readjustment of agricultural exports from a wartime to a peacetime basis will not be completed in 1947.

Whether the total of Government agency gifts and loans for the financing of agricultural exports in 1947 will be larger or smaller than in 1946 will depend primarily upon the size of new appropriations made for these purposes by Congress and on the rate of utilization of the British loan in 1947. In 1946, gifts by UNRRA, gifts in the form of military shipments for the feeding of foreign civilians, and Lend-Lease credits financed the movement to foreign countries of agricultural products valued at about \$1,307 million. This is about 37 percent of the \$3,511 million which is the total of reported agricultural exports plus the military shipments of food to foreign civilians. This 37 percent would be considerably increased (but not to more than 45 percent) if it were possible to allow for the increase in agricultural exports in the last half of 1946 attributable to the British loan.

In 1946 UNRRA agricultural exports were valued at about \$721 million. At the end of 1946, the estimated value of exports of agricultural products budgeted by UNRRA for 1947 from the United States contribution to its funds was about 110 million dollars. This may be increased by steps now being taken to reduce budgeted 1947 UNRRA exports of nonfarm products. Such an increase probably would be less than 40 million dollars.

If the requested supplementary appropriation for 1946-47 for military shipments for foreign civilian feeding is granted, it looks as though funds available for these shipments in the first half of 1947 would be as large as the value of actual shipments in the first half of 1946 which were valued at \$230 million. Shipments in the last half of 1947 will depend mainly upon the size of the 1947-48 appropriation.

In addition to the above, \$350 million has been requested for post-UNRRA foreign relief for 1947. Practically all of this would be spent on foods.

In 1946, Lend-Lease credits were used to finance agricultural exports valued at \$211 million. These credits will be negligible in 1947.

The rate of utilization of the remainder of the British loan during 1947 also will affect agricultural exports, since in the last half of 1946, 32 percent of British dollar expenditures of 500 million (not necessarily loan dollars) were for tobacco and 24 percent for food. In the same period, the Treasury placed \$600 million out of the total loan of \$3,750 million in Britain's drawing account.

The proportion of the \$600 million that remained at the beginning of 1947 has not been published. Early in January another \$200 million was placed in Britain's account. The rate at which the British will utilize the balance of \$2,950 million remaining in their line of credit will depend entirely upon the British since the Treasury needs no further authorization from Congress for placing any or all of this balance at their disposal in 1947. British officials have stated that the credit was being drawn upon considerably more rapidly than was expected. Great Britain will need a large supply of dollars after July 1, 1947 to make good her promise to make sterling from current transactions freely convertible by all holders into dollars and other currencies after that date. This, together with the current coal crisis and its adverse affect on Britain's ability to earn dollars with her exports to the United States, as well as the effect of recent price rises in this country, are reported to be causing British officials concern as to how long the dollars made available through the United States credit can be made to last.

A much more intangible factor concerning the outlook for the continued financing of an important fraction of agricultural exports by Government credits is the future size and use of loans by the Export-Import Bank, the International Bank, and the International Monetary Fund. Only the first of these agencies financed any exports in 1946. The other two agencies are expected to begin loaning operations in 1947. If a substantial portion of the dollar lending capacity of these agencies is utilized in 1947, it will markedly increase the supply of dollars in the hands of foreigners. The future loans of all three agencies will not be made for relief purposes but will be made for reconstruction and development projects in the case of the banks and for currency stabilization in the case of the Fund. These objectives preclude the extensive use of the dollars loaned by these agencies for the purchase of agricultural products. But even if all of the dollars loaned to foreigners in 1947 by these institutions were used to buy nonfarm products, their availability to foreigners would release more of their dollar reserves and currently earned dollars for the purchase of United States farm products than would otherwise be the case.

FARM INCOME

Farmers are getting more from cash sales than they did at this time last year; but they are getting much less in the form of Government payments. Combined receipts from both sources during the first quarter of 1947 will be about 5.8 billion dollars, or nearly 28 percent more than last year. Receipts from marketings are up about 33 percent. Volume of sales is a little larger; but most of the increase in receipts is the result of higher prices which averaged 25 percent above the first quarter of 1946. On the other hand, Government payments to farmers during the first 3 months of 1947 probably will total less than 90 million dollars, a decline of 65 percent from last year when production payments were being made on sales of dairy products, beef cattle and sheep and lambs.

First-quarter cash receipts from the sale of livestock and products will be about 3.8 billion dollars, 45 percent more than last year. Prices will average 35 percent higher. Prices of meat animals are about 45 percent above the first quarter of 1946, and receipts are more than 50 percent greater. Cash receipts and prices for dairy products will be about 40 percent greater than last year.

But the increase in dairy receipts is only about 20 percent if allowance is made for dairy production payments in 1946. Cash receipts from crops in the first-quarter may total about 1.9 billion dollars, about 15 percent above 1946. Prices are also about 15 percent higher. Cash receipts from food grains are about 30 percent greater, largely as a result of higher prices. Cash receipts from tobacco are almost 45 percent above the first quarter of 1946, mostly because of heavier marketings.

In February total cash receipts, including Government payments, were around 1.8 billion dollars, almost 15 percent below January, but 25 percent above February 1946. Much of the decline from January to February may be accounted for by the smaller number of marketing days in February. Prices of agricultural commodities in February averaged about 25 percent higher than for the same month in 1946. Receipts from livestock and products were about 1.2 billion dollars, 8 percent below January but more than 40 percent above February 1946. Income from crops was about 600 million dollars, 25 percent less than January but 15 percent above February last year. Receipts from most crops dropped seasonally.

Total cash receipts may amount to 1.9 billion dollars in March, slightly more than in February and one-third more than in March of last year. Prices of all commodities may average about 25 percent above 1946. Income from livestock and products may be about 1.3 billion dollars, a little above February and about 44 percent greater than March 1946. Receipts from dairy and poultry products will rise seasonally. Receipts from crops in March may decline slightly, reflecting seasonal decreases in grains, cotton, and tobacco.

LIVESTOCK AND MEAT

Prices of meat animals in general are expected to continue high at least through the first half of 1947, although there will be considerable variation in price changes for the various kinds and grades. Prices of hogs and lambs are expected to continue at high levels during the next few months. Prices of better grade slaughter cattle probably will decline further as marketings increase seasonally through spring. Prices of stocker and feeder cattle may also decline after spring, as marketings increase seasonally, although the decline probably would be less than for better grade slaughter cattle. Greater-than-seasonal declines in meat-animal prices are likely in the last quarter of 1947.

Prices of hogs in mid-February were near the record levels reached last November, and were around 60 percent higher than in February 1946. Prices of fed cattle declined during December and January, but prices of stocker and feeder cattle continued at near-record levels.

Over-all meat supplies will be larger throughout 1947 than in 1946. Most, if not all, of the increase will be beef. The near-record number of beef cattle now on farms, including an increased number to be fed, suggest a record or near-record production of beef during the year. Pork supplies this spring and summer will be less than a year earlier chiefly because of the reduced 1946 fall pig crop. Also, storage stocks of pork were low in mid-February, which is near the close of the usual into-storage season.

Farmers reduced numbers of all kinds and classes of livestock in 1946. There were 57 million hogs on farms January 1 this year, 4 million fewer than a year earlier. There were 2 percent fewer beef cattle on farms and ranches at the beginning of 1947 than a year earlier, but 24 percent more than at the beginning of 1941. There were 2 percent fewer milk cows on farms January 1 this year than last, bringing the total to the lowest level in 6 years. The number of sheep on January 1 was the lowest in 22 years, declining 9 percent in 1946. The number of sheep has declined for 5 consecutive years, and the total decline of 31 percent during that period was the greatest for any previous 5-year period. The number of stock sheep is now the lowest since at least 1867.

DAIRY PRODUCTS

Prices received by farmers for milk and butterfat are expected to decline more than seasonally from the November 1946 peak as greater than seasonal price decreases occur on such major products as butter, cheeses other than Cheddar, and perhaps fluid milk and cream. However, prices received by dairy farmers during the first half of 1947 will average above the same period in 1946 and cash receipts from the sale of dairy products probably will exceed any previous year except 1946.

Civilian per capita consumption of dairy products in terms of milk equivalent may be somewhat lower in 1947 than in 1946. The total supply of milk in all forms available to civilians is likely to be about the same, but the civilian population will be greater.

Fluid milk and cream consumption per person may decline as consumers spend a larger portion of their disposable income for other products. Per capita consumption of whole milk powder may decline slightly.

Per capita butter consumption probably will increase from the record low level of 1946, but little change is expected in consumption of other manufactured dairy products. Butter consumption is far below prewar and stocks are under last year's low level.

Cheddar cheese and evaporated milk production in 1947 is expected to be about the same as in 1946. The production of condensed whole milk, foreign type cheese, and whole milk powder is likely to decline in 1947. Butter production will increase substantially as large quantities of butterfat are made available for butter by a reduced utilization of fluid milk and cream.

POULTRY AND EGGS

Egg prices in late February were at or near support levels. Prices probably will rise about seasonally after May, although they are expected to continue at or near support levels for most of 1947. However, if there is but little change in the index of prices paid by farmers, support levels will continue moderately above last year's actual prices. The Department of Agriculture is now purchasing moderate quantities of frozen eggs to support prices, and is also buying dried eggs for export.

Civilian demand for eggs is likely to continue at an exceptionally high level, at least through the first half of 1947, reflecting near record meat prices and high levels of consumer purchasing power. Per capita egg consumption during each of the four months, October 1946-January 1947, exceeded comparable months of any previous year and was nearly 5 percent above the corresponding period of 1945-46. Retail egg prices in recent months were at very high levels and averaged about 3 percent above comparable months in 1946.

As of early February, farmers were intending to purchase 6 percent less baby chicks in 1947 than in 1946. If purchases are reduced by this amount the size of the national laying flock on January 1, 1948 will be about the same or slightly below January 1, 1947. Also, farmers' intentions as of early January were to purchase 16 percent fewer turkey poults in 1947 than in 1946.

Chicken and turkey prices have been declining sharply from the all-time peaks reached in mid-October. However, prices of chicken are expected to rise somewhat in the next few months because supplies of poultry and red meats will be seasonally smaller.

The Department of Agriculture began a price support program for turkeys on February 11.

FATS, OILS, AND OILSEEDS

Prices of fats, oils, and oilseeds probably will continue high during the next few months. For the first half of 1947 total supplies of fats will be smaller than in the first half of 1946 and substantially below the prewar average for years of high business activity. Reduced inventories more than offset prospective moderate increases in domestic output and imports. Factory and warehouse stocks of fats and oils on January 1, 1947, totaling 1,264 million pounds, were 462 million pounds less than a year earlier and were about 950 million pounds under the 1937-41 average for January 1.

High prices for soybeans and flaxseed in relation to grain prices this spring probably will lead to considerable expansion in acreage of soybeans and flaxseed. However prices of oilseeds produced in 1947 will not decline below wartime levels. Flaxseed harvested in 1947 will be supported at \$6.00 per bushel, Minneapolis basis, compared with \$3.60 per bushel for 1946-crop flaxseed, the highest previous support. Soybeans under the Steagall Amendment must be supported at not less than 90 percent of the comparable price next September. Support prices for soybeans in the war years ranged from \$1.60 to \$2.04 per bushel. Prices for the 1947 crop of peanuts will be supported at 90 percent of the parity price which, on the basis of the mid-January 1947 parity price, would be about 9.3 cents per pound. The highest previous support was 8.6 cents per pound for peanuts produced in 1946. A decline in prices of fats, oils, and oilseeds is likely next fall when marketings of 1947 oilseed crops gets under way.

CORN AND OTHER FEEDS

Market receipts of corn were the largest on record during October-January and marketings will continue large between now and October. Commercial requirements also will be large because of the strong demand for domestic processing and for export. Livestock feed use during January-September 1947 will be smaller than a year earlier. Much of the decrease will be in wheat feeding. Around 75 to 100 million bushels less wheat is expected to be fed than in this period last year. The combined carry-over of corn, oats, and barley into 1947-48 is expected to be 50-75 percent greater than the 9.9 million tons in 1946-47 with most, if not all, of the increase in corn.

Domestic utilization of corn for food and industrial purposes probably will be at a near-record level during the current season. Utilization by both the wet-processing and dry-processing industries probably will be the largest in recent years. Restrictions on the use of corn by distillers were discontinued February 6. Use of corn in the production of distilled spirits will be much larger this year than in 1945-46. Exports of corn in 1946-47 may approximate 100 million bushels, the largest since 1937-38. Through the middle of February about 50 million bushels of corn had been purchased for export.

Market prices of corn advanced more than seasonally from mid-January to mid-February as a result of the strong demand for processing and for export. Prices of oilcake and meal continued downward during the past month; and, with the exception of the price of linseed meal, reached levels near the June 1946 ceilings. During October-December 1946, oilcake and meal production was slightly larger than a year earlier. From January through September production of these feeds may be a little smaller than in these months last year.

On January 1 there were 6 percent fewer grain-consuming animal units on farms than on January 1, 1946. The supply of feed concentrates per animal unit for the current feeding season is substantially larger than a year ago. January 1 stocks of corn, oats, and barley per grain-consuming animal unit were 16 percent larger than a year earlier, and the largest on record.

WHEAT

Wheat prices have recently advanced to new 27-year highs, and are expected to continue at high levels for the rest of the marketing year. Strength in wheat prices has resulted from a growing recognition that exports will be so large as to result in another small carry-over next July.

Effort is being made to export wheat and flour equivalent to at least 325 million bushels in the year ending June 30, 1947. The original goal announced in August was for 267 million bushels. The transportation situation has improved greatly, except in the Northern Plains Area, but there will be increased competition for railroad cars this spring, especially to move building materials. Exports of wheat and flour in the last half of 1946 were equivalent to 167 million bushels.

Wheat supplies for the year beginning July 1946 totaled 1,256 million bushels. It is expected that domestic disappearance will total about 790 million bushels, consisting of 525 million for food, 180 million for feed and 87 million for seed.

Exports of 325 million bushels, would result in a carry-over of about 140 million bushels. To the extent that exports exceed 325 million bushels, the carry-over would be correspondingly smaller. In any event the carry-over will be considerably below the 235 million-bushel average for 1932-41, but above the 100 million bushels on July 1, 1946. Since July 1 the Department of Agriculture has purchased or has contracted for delivery approximately 153 million bushels of wheat. This, together with 30 million bushels owned by the Department on June 30, 1946, about meets the quantity needed for the 1946-47 wheat export allocation. However, in the case of flour, purchases are made by the Department from millers who buy the wheat, and who will be in the market for additional supplies.

World wheat production, excluding Soviet Russia and China, for 1946 is estimated at 4.15 billion bushels. This is the largest crop since 1939 and about 3 percent above the 1935-39 average. Even though production was increased in importing countries, the overseas demand continued to greatly exceed available exportable supplies.

FRUIT

Prices received by growers for fruit are expected to be moderately higher in March and April than those of late January. This will result from reduced market supplies of fresh oranges and a shift in volume to the Valencia variety, and from seasonally declining stocks of apples and pears. However, the increase in price will be limited by the abundant supplies of fresh and processed fruit.

Terminal market auction prices for citrus recovered slightly in early February from the extremely low levels reached in January, partly because of reduced shipments and improved quality. The prices advanced sharply following the severe cold wave on February 5, that damaged oranges, tangerines and grapefruit in Florida. Because of frost damage, the Florida Citrus Commission prohibited shipments for 7 days beginning February 12. With the resumption of shipments, prices receded to levels moderately above those prevailing before the cold wave.

Market supplies of oranges and grapefruit will remain plentiful during the next two months despite the recent storm damage in Florida. Supplies of grapefruit will continue moderately larger than a year earlier, while prospective Valencia orange supplies are about one-eighth larger than last year. In view of such large supplies, prices during the next two months are expected to be only moderately higher than those of late January. However, the higher prices for fresh citrus probably will result in a stronger market for the canned products.

With prices received by growers for apples and pears at relatively high levels and cold storage stocks on February 15 slightly above the 1942-46 average for that date, only slight increases in prices for these two fruits seem likely during the next few months. Prices to growers for strawberries are expected to continue at the high levels of the past month until shipments gain volume in the late winter or early spring.

TRUCK CROPS

Prices to growers for commercial truck crops for fresh market are expected to be moderately lower this March and April than a year earlier in spite of moderately smaller supplies this year. As of February 1, winter supplies of artichokes, snap beans, carrots, cauliflower, cucumbers, eggplant, kale, and green peppers were expected to exceed those of last year, with total

winter supplies only slightly below last winter. However, freezing weather in Florida early in February caused considerable damage to snap beans, tomatoes, peppers, lima beans, cucumbers, eggplant and squash.

Stocks of canned vegetables in wholesale distributors' hands have been building up in recent months more rapidly than usual. However, packers stocks have been maintained at relatively low levels. Stocks of frozen vegetables in storage February 1 were record large for that date. Both wholesale and retail prices for canned and frozen vegetables in general were firm or advancing slightly in February, considerably above prices a year earlier. Slightly smaller acreages of most commercial truck crops probably will be grown for processing in 1947 than in 1946.

POTATOES AND SWEETPOTATOES

Prices received by farmers for potatoes in March and April are expected to be only slightly higher than current prices. Although supplies of new potatoes are much smaller this year than last, less than the usual premium is being paid for new potatoes compared to storage potatoes because of the record large supplies of old potatoes available. Potatoes did not move out of storage as rapidly as desired during January and early February. This rate will have to be increased in order to move the total supply before excessive deterioration sets in toward the close of the 1946 crop marketing season. More than three-fourths of the total quantity of potatoes in storage are potatoes on which growers have Government loans. While continuing to utilize all the commercial diversion and export markets, the Government is going ahead with an aggressive disposal program to remove the less desirable grade and sizes and the potatoes which are deteriorating.

Demand for seed potatoes will be lower this year than last because of the smaller acreage of potatoes to be planted. However, record large supplies of certified seed potatoes are available. Consequently, prices will be considerably lower than a year ago. Prices to growers for sweetpotatoes are expected to rise less than seasonally for the balance of 1946 crop season. Wholesale prices in New York City for Louisiana Porto Rican sweetpotatoes were moderately lower in early February this year than a year earlier.

COTTON

In mid-February cotton prices at the 10 markets were slightly under 33.5 cents, 3 cents above last months low of 30.32 cents on January 20. The steady upward trend since the latter date brought cotton prices back to about the same level as at the beginning of January of this year. Recent price advances have been greatest for the low grades with discounts narrowing considerably since October. Major factors bolstering prices are: The greatly reduced supplies of free cotton and the apparent general belief among the trade that the effective demand will continue strong through the remainder of 1947. Parity prices on January 15 average 26.66 or a quarter of a cent higher than for December 15. The 10

market price for February 11 was 19 percent above the equivalent parity price compared with a difference of 13 percent on January 15.

The demand for textiles continues strong although buyers for the retail trade are said to be more cautious about quality standards. Spot and nearby cloth prices advanced about 4 cents during January and are from 15 to 20 percent above contract prices for advanced delivery. This advance in cloth prices resulted in a further increase of almost 4 cents per pound in mill margins. In January mill margins averaged 51.60 cents per pound, or about 2-1/2 times the average during the period of price controls and four times the average for the prewar period (1935-39).

Domestic mills used a total of 947,000 bales of cotton in January compared with 774,177 bales for December. The daily rate averaged 42,090 bales, which is about 14 percent higher than in December and slightly higher than the daily average for the first 5 months of the current season. It now seems likely that domestic manufacturers will use 10 million bales this season compared with 9.5 million bales last season. Assuming that exports and imports run about as previously estimated, the carry-over next August 1 will be around 3 million bales. This would be less than half the carry-over of 7.5 million bales last August 1 and the lowest since 1929.

WOOL

The Secretary of Agriculture stated on January 22nd, that "We do not plan to continue (the wool purchase program which expires on April 15) unless the Congress specifically directs us to do so." If no support is authorized, prices to wool growers for the 1947 clip are likely to be lower than for the last 4 years when prices have been supported. Current average market prices for comparable grades of duty-paid imported wool at Boston are about 10 percent below the support level of domestic wool and are not expected to increase. Because of their high prices, CCC sales of domestic wools have been small so far in 1947 and probably will continue small. The CCC held about 460 million pounds of wool (actual weight) on January 1, 1947, the equivalent of considerably more than a full year's domestic production.

Mill consumption of apparel wool reached a new record high of 620 million pounds, scoured basis, in 1946. This was 5 percent above the previous record of 592 million in 1943 and was more than twice as large as the 1935-39 average of 281 million. Consumption on a grease basis in 1946 was 1070 million pounds, consisting of about 240 million pounds of domestic wool and 830 million pounds of foreign wool. Some decline from this record rate of mill consumption may occur during the spring or summer of 1947. The February mill output level, which is apparently about equal to the 1946 average, is high enough to more than meet current apparel demands. The consumption of apparel wool in 1947 may be lower than in 1946 but still larger than prewar (1935-39).

TOBACCO

Burley prices reached a peak in early January and since that time weekly average prices have been successively lower. Gross sales during January were 316 million pounds at an average of 40.2 cents per pound compared to 264 million pounds at 36.6 cents in January 1946. During the first two weeks of February average prices declined to 35.9 cents per pound, but demand for cigarette grades continued strong. Deliveries to Associations for Government loans to date are estimated at around one-fifth of the total crop.

Fire-cured tobacco sales have been intermittent since mid-January because of congested conditions in redrying plants. Virginia fire-cured type 21 averaged 30.0 cents per pound through February 17. In the Kentucky-Tennessee area, the Western and Eastern districts averaged 22.5 and 27.4 cents per pound, respectively. Each of the fire-cured types is below last season's average price. A very substantial portion of type 22, Western Kentucky-Tennessee fire-cured, has been received for Government loans.

Demand for dark air-cured tobacco type 35 strengthened in early February but declined by mid-month. Average prices for types 36 and 37 also declined. For sales through mid-February, the average price for all dark air-cured types was a little below 23.0 cents per pound--about 2 cents lower than last season's average. Considerable quantities of this tobacco also have been received for Government loans.

Cigar tobacco marketings in Wisconsin were delayed because weather conditions were not suitable for casing tobacco. A few sales of Pennsylvania cigar filler, type 41, have occurred but price indications are indefinite.

High cigarette and cigar production are expected to continue; domestic consumption (tax-paid withdrawals) in the fourth quarter 1946 was 14 and 12 percent, respectively, above the same period in 1945. Consumption of smoking and chewing was 12 percent less in the last quarter of 1946 than in the corresponding period of 1945 and snuff consumption was about 2 percent less.

Exports of tobacco leaf in the last quarter of 1946 were 41 percent higher than the average of the three preceding quarters and 121 percent above the last quarter of 1945. Over 80 percent of the tobacco leaf shipments since V-J Day was flue-cured. The 1947 national marketing quota of flue-cured has been increased ten percent primarily to provide tobacco for export.

A COMPARISON OF BUSINESS ACTIVITY FOLLOWING TWO WARS*

SUMMARY

Any comparison of the present postwar period with that following World War I must take into consideration widely differing circumstances. Productive capacity and the stage of technological and economic development in the two periods differs vastly. Both periods, however, followed a major war during which the economy operated at full capacity and a large part of the expanded output was used in prosecuting the war.

For the most part, the periods compared are from November 1918 through 1921 and August 1945 through 1946. Both periods are characterized by rapidly rising prices and a substantial reduction in real consumer purchasing power. In 1919, compensation of employees was less than 60 percent of income payments. Compensation of employees in 1946 was lower than in the previous two years and represented the smallest proportion of income payments since 1936. This reduction in purchasing power may become a major factor limiting the demand for goods and services in the coming year. There are already evidences of reduced consumer demand. For example, department store sales appear to have leveled off, prices of several commodities apparently have reached their peak and some commodity prices have declined.

The rapid rate of inventory accumulation late in 1946, as in 1920, probably cannot be maintained, particularly in view of the apparent leveling off in sales.

In general, profits were relatively high both in 1919 and in 1946--a condition which is favorable for the expansion of commercial construction and capital facilities. However, as in 1919, rising costs probably will discourage some construction activity this year particularly that of residential housing.

Unlike the period following World War I, the Government is committed to support prices of many farm products at not less than 90 percent of parity through 1948. This support should prove effective in cushioning the decline in farm prices characteristic of postwar periods. Moreover, under provisions of the Employment Act, it is now National policy to create and maintain "conditions under which there will be afforded useful employment opportunities, including self-employment for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power." These factors in addition to the backlog demand for new construction and for many durable goods as well as prospective export demand should help to limit the effects of a recession.

* Prepared by R. F. Daly, B. A. E.

INDUSTRIAL ACTIVITY

Industrial production and employment declined in the first halves of both 1919 and 1946 and then began to rise. From January 1919 to January 1920 following World War I, production of nondurable manufactures rose at about the same rate as durables and then began to decline causing total production and employment to start downward early in 1920. Since the spring of 1946, however, total industrial production and employment increased steadily but most of the rise was due to increased output of durable goods (iron and steel, lumber and products, automobiles, machinery, etc.). During the past few months, industrial production increased at a reduced rate. This was partly due to reduced activity in the meat-packing industry in September, the coal strike during the latter part of November and early December and the holiday season lull in industrial production.

Construction and Other Capital Formation

After the first World War construction activity (as measured by the value of building contracts awarded) increased rapidly until July 1919. During the same period, building material costs rose sharply. Residential construction started to decline about mid-year in 1919 but commercial and industrial construction continued upward until January 1920. The rapid rise in building material costs from the second quarter of 1919 to early 1920 probably was a primary factor in limiting the effective demand first for residential and finally for commercial and industrial construction. This decline in construction activity corresponded with the decline in employment of industrial workers.

The trend in construction activity following the recent war closely resembles that of the period after World War I, except that the general decline came earlier. This decline, which began in May 1946, was not caused by the gradual uptrend in controlled building material prices, but by the reduction in the rate of construction authorizations by the Government. This reduction was necessary because the rapid rise in activity before May 1946 was considered too great in view of limited production of building materials. A further decline in residential construction contracts began in October following the abrupt rise in prices of building materials after the end of price control.

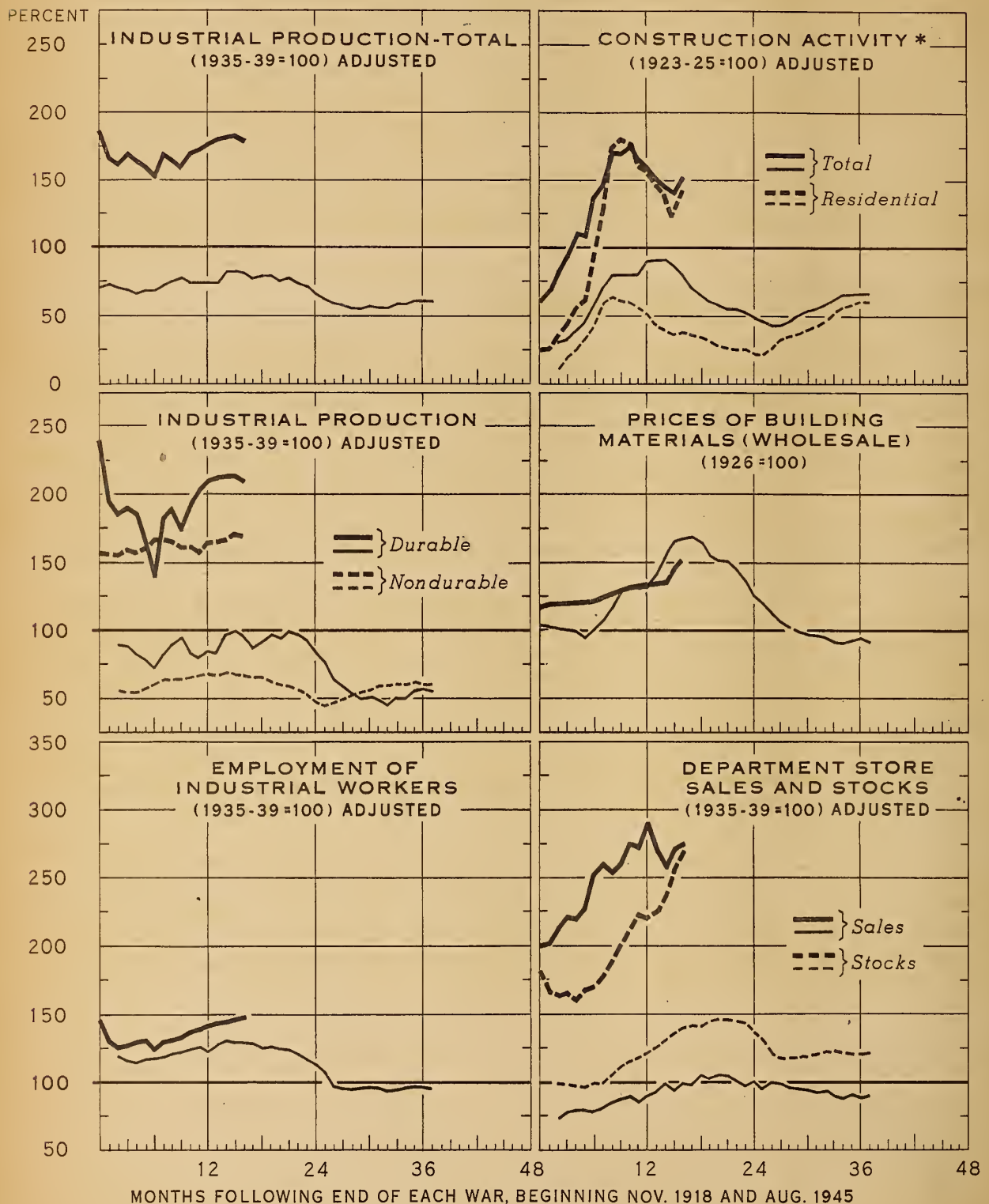
It remains to be seen what effect the recent relaxation on building controls will have on new construction activity, particularly in view of the continued rise in prices of building resources. There is a huge backlog of needs for new construction, both residential and commercial, but the continued rise in building material prices may discourage some building activity particularly an expansion of residential construction.

INDUSTRIAL ACTIVITY

MONTHLY INDEX NUMBERS FOR THE PERIODS FOLLOWING THE TWO WORLD WARS

Heavy lines=Aug. 1945 to date

Light lines=Nov. 1918 to Dec. 1921

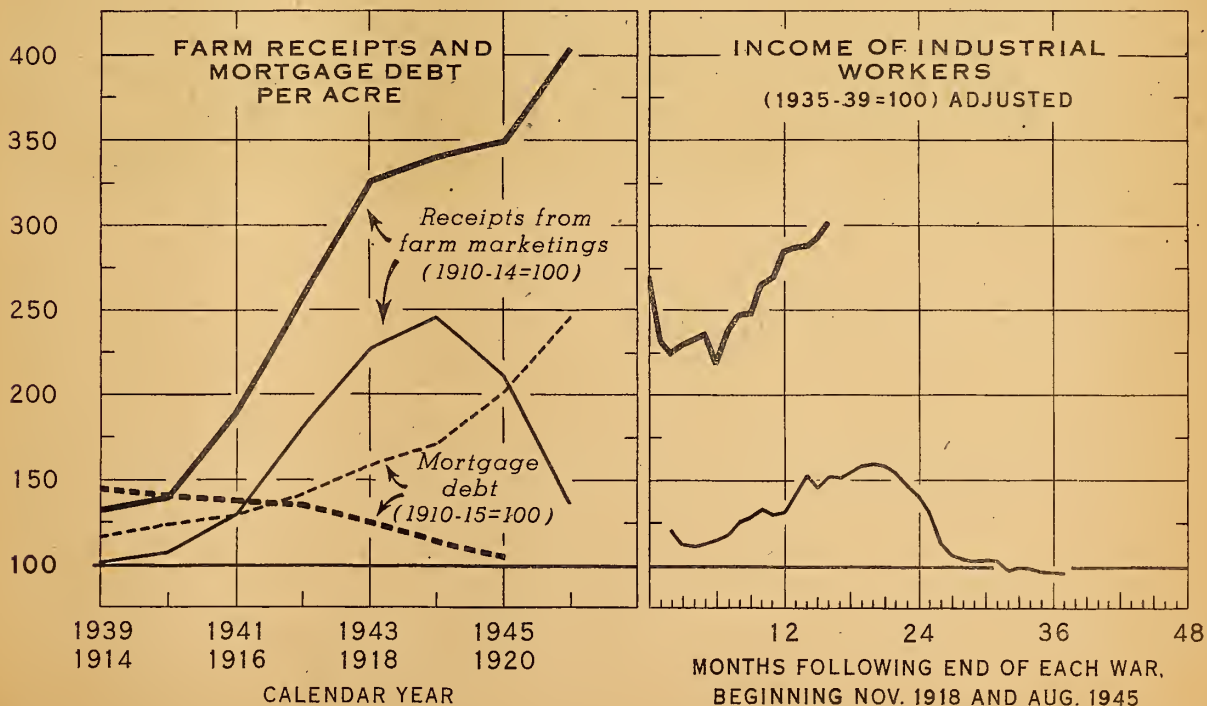
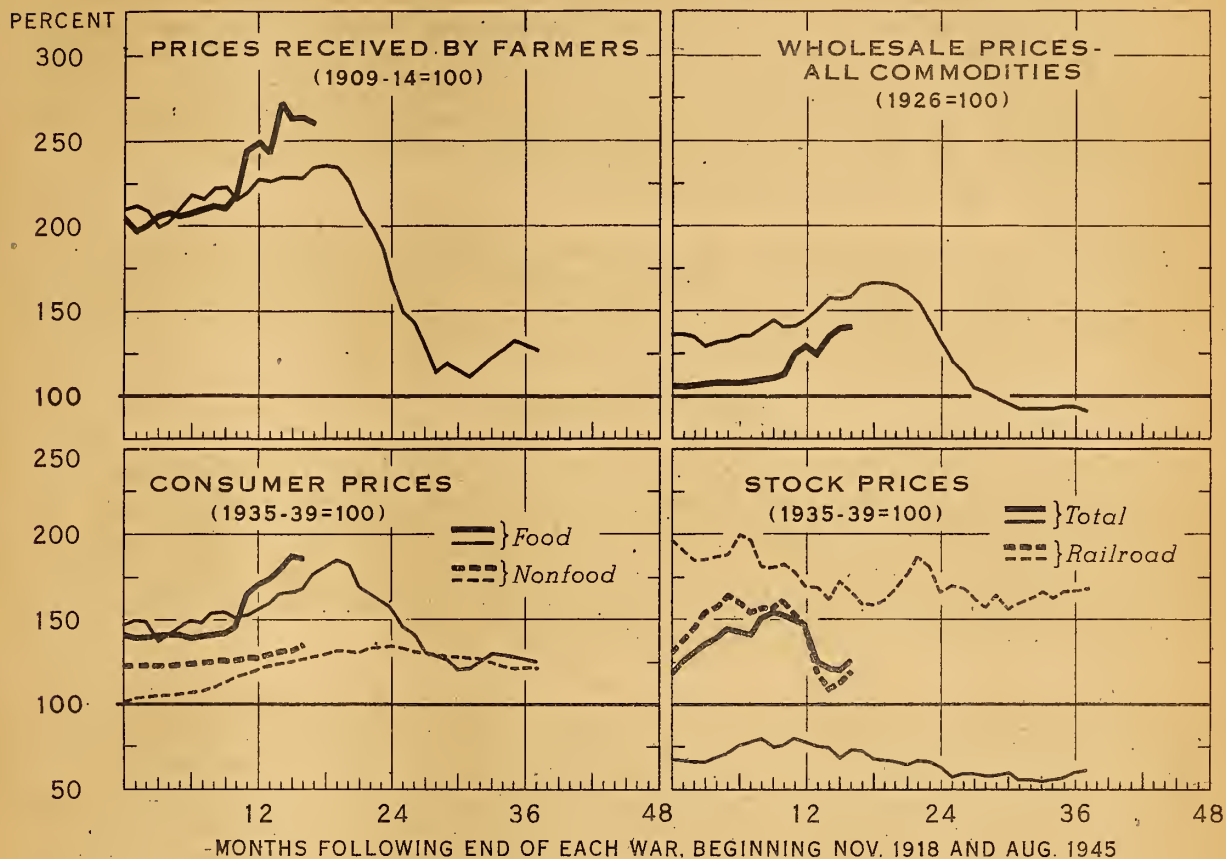


* VALUE OF CONSTRUCTION CONTRACTS AWARDED

INCOME AND PRICES

MONTHLY INDEX NUMBERS FOR THE PERIODS FOLLOWING THE TWO WORLD WARS

Heavy lines=Aug. 1945 to date Light lines=Nov. 1918 to Dec. 1921



Private expenditures for new capital in 1919 (including net change in inventories and net exports) were about one third as large as consumer expenditures for goods and services, 31 percent as large in 1920 and 17 percent as large in 1921. During 1925-29, a period of rising production and moderately declining prices, expenditures for new capital were about 23 percent of consumer expenditures. During 1935-40, when the trend in production was upward and prices were fairly stable except for the 1937 dip, expenditures for new capital were only 17 percent as large as consumer expenditures.

Expenditures for new capital in 1946 are estimated to be approximately 25 percent of consumer expenditures with a somewhat higher ratio for the fourth quarter. These ratios exceed the average of the late Twenties and late Thirties, but are still below the ratios preceding the 1920 recession.

INCOME AND PRICES

Wage income of industrial workers after both wars rose following an initial decline resulting from the termination of war production, reduction of the work week and loss of overtime pay. Following World War I, the income of industrial workers continued to rise until the middle of 1920--almost six months after the break in production of nondurables, in construction activity, and in industrial employment--and then started to decline.

Income payments to individuals in 1946 are estimated at \$164 billion, a new record. During the latter part of the year, income payments exceeded an annual rate of \$170 billion. It is significant, however, that compensation of employees, which is primarily wages and salaries, was lower in 1946 than in the previous two years. Employees compensation amounted to about two-thirds of income payments in 1946 which is the lowest ratio since 1936. Moreover, recent rapid price increases have reduced the real income of employees below the levels of recent years. Despite this, consumer expenditures in 1946 were far above any previous year. This resulted from the high level of earnings supplemented by increased consumer credit, use of savings, and payments to veterans. This reduction in real earnings, although more than offset by the above mentioned factors in 1946, may become significant in limiting the effective demand for products in 1947.

Inventories and Sales

Inventory accumulation--another source of demand for goods--rose rapidly from mid-1919 to July 1920 when sales began to fall off. During 1946, inventories increased at a rapid rate, but at the same time sales were increasing rapidly justifying the accumulation of additional stocks. The rise in both stocks and sales has been due in part to higher prices. The rate of stock accumulation, particularly in the latter part of 1946, is probably greater than can be maintained since sales appear to be leveling off. Although the ratio of inventory accumulation to consumer expenditures increased rapidly during the latter part of 1946, it still does not average as high as in 1919 and 1920.

Farm Income and Debt

During and immediately following both wars farm income rose rapidly. High farm incomes were accompanied by a steady reduction in the farm mortgage debt during World War II. This trend is in contrast to that of World War I when the farm mortgage debt increased. Soon after the break in farm product prices in 1920, the farm mortgage debt exceeded cash receipts from farm marketings. In 1946, the farm mortgage debt increased slightly as a result of new loans on farm real estate, but the overall debt position of the farmer in 1946 is much more favorable than in 1919. In 1919, the farm debt was equal to about one-half of the cash receipts from marketings compared to less than one-fourth in 1946.

Prices

Prices received by farmers after the recent war were approximately at the same level as after the last war. The trends were very similar until the last half of 1946 when with removal of controls, prices of farm products rose abruptly to a high of 274 (1910-14=100) in October. Since November 1946, farm prices have been fairly stable around 260 to 264 compared with a peak of 235 reached in May 1920. Average prices of farm products appear to have passed their post World War II peak and some commodity prices have already declined--butter, eggs, poultry, and citrus fruits. Although these declines are largely seasonal, this is the first year there has been any significant price declines since the beginning of the war. After World War I the index of prices received by farmers leveled off in the second quarter of 1920 then declined over 50 percent by the following March.

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But prices of livestock and livestock products in general, after reaching a peak in December 1918, were fairly stable during the following year and began to decline early in 1920. Meat animal prices began to weaken as early as mid-1919 preceeding the general decline in prices by almost a year. Tobacco prices also began to weaken late in 1919. Prices of most other crops, particularly food and feed grains, cotton, and oil-bearing crops, continued to rise until mid-1920

Wholesale prices followed about the same general pattern after the recent war as after World War I. From November 1946 to January 1947, the all-commodity index of wholesale prices averaged around 140 percent of the 1926 level. While present prices of foods and farm products are well above the 1919-20 level, the index of wholesale prices of all commodities is well below. Prices of some commodities, particularly food, clothing, and farm products, rose more rapidly than other prices during the last half of 1946. Continued increases in prices of most building materials, machinery, chemicals and allied products, and house furnishings, however, are rapidly eliminating much of the existing disparity. Further, prices of some farm and food products have declined from the high levels of late 1946 and have tended to stabilize temporarily the index of wholesale prices.

All prices rose rapidly during the last half of 1946 causing a sharp rise in the cost of living, but employees incomes increased at a much slower rate. The net result of these trends is a substantial reduction in the real purchasing power of most consumers. Reduced purchasing power is probably a major factor influencing the reported consumers resistance to high prices, and the current leveling off and decline in prices of some products.

The current weakening in certain prices as in 1920, may be the forerunner of a general adjustment in prices. Unlike rising prices, declining prices are difficult for business men to adjust to. Profits can be quickly wiped out and unemployment can develop from cutbacks in production. Sellers are anxious to move high priced inventories and buyers hesitate to make purchases if they expect a further decline in prices. Under such circumstances prices could drop more than would be justified by underlying economic conditions.